

10-15 REGIONAL TRANSIT AGENCY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2014

10-15 REGIONAL TRANSIT AGENCY

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10-15 REGIONAL TRANSIT AGENCY

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Board of Directors		
Lee Dimmitt	Chairman	Jefferson County
Greg Kenning	Vice Chairman	Wapello County
Dale Taylor	Secretary	Davis County
Deke Wood	Member	Keokuk County
Dennis Smith	Member	Lucas County
Jody McDanel	Member	Appanoose County
John Sellers	Member	Wayne County
Mark Doland	Member	Mahaska County
Michael Beary	Member	Monroe County
Ted Nixon	Member	Van Buren County
Agency		
Jay Allison	Executive Director	

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
10-15 Regional Transit Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of 10-15 Regional Transit Agency as of and for the six months ended June 30, 2014, and the related notes to financial statements, which collectively comprise the Agency's financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the 10-15 Regional Transit Agency as of June 30, 2014, and the respective changes in its financial position for the six months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

U.S generally accepted accounting principles require management's discussion and analysis and the budgetary comparison information on pages 4 through 6 and 19 and 20 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015, on our consideration of the 10-15 Regional Transit Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 10-15 Regional Transit Agency's internal control over financial reporting and compliance.

ANDERSON, LARKIN & CO. P.C.

June 24, 2015
Ottumwa, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of 10-15 Regional Transit Agency provides an overview of the Agency's financial activities for the six months ended June 30, 2014 and is provided for consideration in conjunction with the Agency's financial statements, which follow.

Because the Agency is being audited for the first time and because the audit period only covers a six month period, much of the information is not comparable to prior periods. Comparative information has been provided when available and a full comparison will be provided in the future.

2014 FINANCIAL HIGHLIGHTS

- The Agency received \$869,431 during the six months ended June 30, 2014 from a combination of federal and state grants and local sources.
- Expenses were \$842,021 for the six months ended June 30, 2014.
- The Agency's net position increased 6.54%, or \$27,410, from December 31, 2013 to June 30, 2014.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Agency's financial activities.

The Entity-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the Agency as a whole and present an overall view of the Agency's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the entity-wide financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES

Entity-wide Financial Statements

One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of the period's activities?" The Statement of Net Position and the Statement of Activities report information about the Agency as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents all of the Agency's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in the Agency's net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities presents information showing how the Agency's net position changed during the six months ended June 30, 2014. All changes in net position are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Agency's governmental activities are displayed in the Statement of Net Position and the Statement of Activities. Governmental activities include state and federal transit assistance and local sources of revenue.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the net position of governmental activities.

Net Position of Governmental Activities

	June 30, <u>2014</u>
Current and other assets	\$ 298,632
Capital assets	<u>350,097</u>
Total assets	<u>648,729</u>
Current liabilities	<u>202,257</u>
Net position:	
Net investment in capital assets	350,097
Unrestricted	<u>96,375</u>
Total net position	\$ <u>446,472</u>

Net position of the Agency increased 6.54% (from \$419,062 to \$446,472) during the six months ended June 30, 2014.

Change in Net Position of Governmental Activities

	Six months ended June 30, <u>2014</u>
Program revenues:	
Federal sources	\$ 296,597
State sources	141,193
Local sources	411,516
Miscellaneous	<u>20,125</u>
Total revenues	<u>869,431</u>
Program expenses:	
Salaries and benefits	464,249
Vehicle fuel	178,240
Insurance	34,361
Repairs	25,795
Occupancy	17,996
Professional fees	5,168
Office expenses	4,598
Operating expenses	979
Miscellaneous	704
Depreciation	<u>109,931</u>
Total expenses	<u>842,021</u>
Increase in net position	27,410
Net position December 31, 2013	<u>419,062</u>
Net position June 30, 2014	\$ <u>446,472</u>

For the six months ended June 30, 2014, Agency's total revenues increased \$363,580, or 71.9%, from the six month period ending December 31, 2013. The increase was primarily the result of receiving more local revenue and federal funds.

INDIVIDUAL MAJOR FUND ANALYSIS

As the Agency completed the six months ended June 30, 2014, fund balance increased \$66,601 to \$212,089.

BUDGETARY HIGHLIGHTS

As shown in the Budgetary Comparison Schedule, actual revenues exceeded budgeted revenues by \$76,024 and budgeted expenditures were less than actual expenditures by \$19,696. The result was primarily due to more federal and local revenue sources than budgeted and budgeting more for repairs and professional fees than was expended. The Agency did not amend the budget during the six months ended June 30, 2014.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

At June 30, 2014, the Agency had \$350,097 invested in buildings, vehicles and equipment, net of accumulated depreciation. This is a net decrease of \$109,931 which is due to depreciation expense for the six months ending June 30, 2014. More detailed information about the Agency's capital assets is presented in Note 3 to the financial statements.

Long-term liabilities

	Outstanding Long-Term Liabilities	
	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Compensated Absences	\$ 41,622	\$ 32,361
Payable to City	<u>74,092</u>	<u>154,092</u>
	\$ <u>115,714</u>	\$ <u>186,453</u>

Long-term liabilities decreased during the six months ended June 30, 2014 due, in part, to payments made to the City.

NEXT YEAR'S BUDGET

Budgeted revenues and expenditures increased 0.0% and 4.39%, respectively, for fiscal year 2015 over the budgeted fiscal year 2014 amounts.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our local governments, local transit subcontractors and the citizens of Southeastern Iowa with a general overview of the Agency's finances to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the 10-15 Regional Transit Agency at 2417 S. Emma, Ottumwa, Iowa 52501.

BASIC FINANCIAL STATEMENTS

10-15 REGIONAL TRANSIT AGENCYSTATEMENT OF NET POSITIONJUNE 30, 2014ASSETS

Cash, cash equivalents and pooled investments	\$	259,614
Receivables:		
Accounts		18,277
Due from other governments		3,333
Prepaid expenses		17,408
Capital assets, net of accumulated depreciation		<u>350,097</u>
Total assets		<u>648,729</u>

LIABILITIES AND NET POSITION

Liabilities:		
Accounts payable		28,301
Salaries and benefits payable		58,242
Long-term liabilities:		
Portion due or payable within one year:		
Compensated absences		41,622
Due to City of Ottumwa		<u>74,092</u>
Total liabilities		<u>202,257</u>
Net Position:		
Net investment in capital assets		350,097
Unrestricted		<u>96,375</u>
Total net position	\$	<u>446,472</u>

10-15 REGIONAL TRANSIT AGENCYSTATEMENT OF ACTIVITIES
SIX MONTHS ENDED JUNE 30, 2014

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Total</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Operating	\$ <u>842,021</u>	\$ <u>421,816</u>	\$ <u>427,490</u>	\$ 7,285
General Revenues:				
Miscellaneous				<u>20,125</u>
Change in net position				27,410
Net position beginning of period				<u>419,062</u>
Net position end of period			\$	<u>446,472</u>

10-15 REGIONAL TRANSIT AGENCYBALANCE SHEET - GOVERNMENTAL FUNDSJUNE 30, 2014ASSETS

Cash, cash equivalents and pooled investments	\$	259,614
Receivables:		
Accounts		18,277
Due from other governments		3,333
Prepaid expenditures		17,408
TOTAL ASSETS	\$	<u>298,632</u>

LIABILITIES AND FUND BALANCESLIABILITIES:

Accounts payable	\$	28,301
Salaries and benefits payable		58,242
TOTAL LIABILITIES		<u>86,543</u>

FUND BALANCES:

Nonspendable:		
Prepaid expenditures		17,408
Unassigned		194,681
TOTAL FUND BALANCES		<u>212,089</u>

TOTAL LIABILITIES AND FUND BALANCES	\$	<u>298,632</u>
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10-15 REGIONAL TRANSIT AGENCY

RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total governmental fund balances	\$	212,089
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$3,291,386 and the accumulated depreciation is \$2,941,289.

350,097

Long-term liabilities, including compensated absences payable and amounts payable to the City of Ottumwa are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.

(115,714)

Net position of governmental activities

\$ 446,472

10-15 REGIONAL TRANSIT AGENCY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
SIX MONTHS ENDED JUNE 30, 2014

REVENUES:

Federal sources	\$	296,597
State sources		141,193
Local sources		411,516
Miscellaneous		20,125
Total revenues		<u>869,431</u>

EXPENDITURES:

Operating:		
Salaries and benefits		454,989
Vehicle fuel		178,240
Insurance		34,361
Repairs		25,795
Occupancy		17,996
Professional fees		5,168
Office expenditures		4,598
Operating expenditures		979
Miscellaneous		704
Total expenditures		<u>722,830</u>

Excess of revenues over expenditures		146,601
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Other financing uses:

Payment to City		<u>(80,000)</u>
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Change in fund balances		66,601
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Fund balances beginning of period		<u>145,488</u>
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Fund balances end of period	\$	<u>212,089</u>
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10-15 REGIONAL TRANSIT AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
SIX MONTHS ENDED JUNE 30, 2014

Change in fund balances - Total governmental funds	\$	66,601
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Depreciation expense in the current period is as follows:

Depreciation expense		(109,931)
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Proceeds from long-term liabilities provide current financial resources to governmental funds, but debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current period repayments are as follows:

Repaid		80,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences		(9,260)
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Change in net position of governmental activities	\$	27,410
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10-15 REGIONAL TRANSIT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 10-15 Regional Transit Agency is an intergovernmental agency established in accordance with the provisions of Chapter 28E of the Code of Iowa. The area of jurisdiction is Regions 15 and 17, which includes the counties of Davis, Keokuk, Lucas, Wapello, Appanoose, Wayne, Jefferson, Mahaska, Monroe and Van Buren. The Agency's powers and duties are those authorized by Chapter 28E of the Code of Iowa.

The purpose of the Agency is to permit the local governments in the Southeastern Iowa area to make efficient use of their transit operation powers by enabling them to provide joint services and facilities. It also provides planning advisory services and assistance in preparing special planning documents and applications for its members. In performing its duties, the Agency may contract with and expend funds from federal, state and local agencies, public or semi-public agencies or private individuals or corporations as long as the expenditures are for authorized purposes.

The financial statements of 10-15 Regional Transit Agency have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. 10-15 Regional Transit Agency's significant accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the 10-15 Regional Transit Agency has included all funds. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

B. Entity-wide Financial Statements

The General Fund comprises the 10-15 Regional Transit Agency's governmental fund. This fund is the general operating fund of the Agency and the difference between assets and liabilities of the fund is referred to as "fund balance".

The entity-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Agency. Governmental activities are those which normally are supported by intergovernmental revenues.

The Statement of Net Position presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation.

Unrestricted net position consists of net position not meeting the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

10-15 REGIONAL TRANSIT AGENCY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Entity-wide Financial Statements (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for the governmental fund.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency.

C. Measurement Focus and Basis of Accounting

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Agency's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned, and then unassigned fund balances.

Under terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

D. Budget

The Executive Director of the Agency prepares an annual budget for the Agency's general operations. This budget is approved and monitored by the Board. The budgetary comparison and related disclosures are reported as Required Supplementary Information.

10-15 REGIONAL TRANSIT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Due From Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

F. Capital Assets

Capital assets, which include building, equipment and vehicles, are reported in the Statement of Net Position in Exhibit A. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Building, equipment and vehicles	\$ <u>5,000</u>

Capital assets of the Agency are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Building	15
Equipment	5-15
Vehicles	5-15

G. Compensated Absences

Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded in the Statement of Net Position. This liability has been computed based on rates of pay in effect at June 30, 2014.

H. Fund Balance

In the governmental fund financial statements, fund balances (other than nonspendable) are classified as unassigned as there are no constraints placed on the use of resources.

NOTE 2: CASH AND INVESTMENTS

The Agency's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investments trusts, and warrants or improvement certificates of a drainage district.

The Agency had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

10-15 REGIONAL TRANSIT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 3: CAPITAL ASSETS

Capital assets activity for the six months ended June 30, 2014 was as follows:

	<u>Balance Beginning of Period</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Period</u>
Capital assets being depreciated:				
Buildings	\$ 35,318	\$ -	\$ -	\$ 35,318
Vehicles	2,990,827	-	-	2,990,827
Equipment	<u>265,241</u>	<u>-</u>	<u>-</u>	<u>265,241</u>
Total	<u>3,291,386</u>	<u>-</u>	<u>-</u>	<u>3,291,386</u>
Less accumulated depreciation for:				
Buildings	15,697	1,177	-	16,874
Vehicles	2,588,849	101,433	-	2,690,282
Equipment	<u>226,812</u>	<u>7,321</u>	<u>-</u>	<u>234,133</u>
Total	<u>2,831,358</u>	<u>109,931</u>	<u>-</u>	<u>2,941,289</u>
Capital assets, net	\$ <u>460,028</u>	\$ <u>(109,931)</u>	\$ <u>-</u>	\$ <u>350,097</u>

NOTE 4: LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the six months ended June 30, 2014 is as follows:

	<u>Compensated Absences</u>	<u>Payable to City</u>	<u>Total</u>
Balance beginning of period	\$ 32,361	\$ 154,092	\$ 186,453
Increases	41,622	-	41,622
Decreases	<u>32,361</u>	<u>80,000</u>	<u>112,361</u>
Balance end of period	\$ <u>41,622</u>	\$ <u>74,092</u>	\$ <u>115,714</u>

NOTE 5: PAYABLE TO CITY

When the 10-15 Regional Transit Agency separated from the City of Ottumwa, Iowa as of December 31, 2013, a final accounting was done by the City and as a result, the Agency owed the City \$154,092. This amount included among other things, accounts receivable as of December 31, 2013 and insurance coverage paid by the City for coverage in effect after December 31, 2013. No interest was paid on this amount. The balance due at June 30, 2014 was \$74,092.

NOTE 6: PENSION AND RETIREMENT BENEFITS

The Agency contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the Agency is required to contribute 8.93% of annual covered salary. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the six months ended June 30, 2014 were \$30,058 and were equal to the required contributions for the period.

10-15 REGIONAL TRANSIT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 7: RISK MANAGEMENT

The Agency is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Agency's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Agency's contributions to the Pool for the six months ended June 30, 2014 were \$22,992.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing protection provided by the Agency's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Agency's risk-sharing certificate, or in the event that a casualty claim, property loss or series of claims or losses exhausts total Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. The Agency does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2014, no liability has been recorded in the Agency's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

10-15 REGIONAL TRANSIT AGENCY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7: RISK MANAGEMENT (Continued)

The Agency also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the six months ended June 30, 2014.

NOTE 8: DONATED RENT

The City of Ottumwa, Iowa rents office and garage space to the Agency for \$1 per year. The fair value of the space rented is \$1,520 per month. Six months of rent (\$9,120) has been included as miscellaneous revenue and occupancy expenses in the accompanying financial statements.

NOTE 9: PROSPECTIVE ACCOUNTING CHANGE

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

NOTE 10: SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through June 24, 2015 the date statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

10-15 REGIONAL TRANSIT AGENCY

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
REQUIRED SUPPLEMENTARY INFORMATION

SIX MONTHS ENDED JUNE 30, 2014

	<u>Actual</u>	<u>Original and Final Budget *</u>	<u>Favorable (Unfavorable) Variance</u>
REVENUES:			
Federal sources	\$ 296,597	\$ 246,957	\$ 49,640
State sources	141,193	160,000	(18,807)
Local sources	411,516	373,750	37,766
Miscellaneous	<u>20,125</u>	<u>12,700</u>	<u>7,425</u>
Total revenues	<u>869,431</u>	<u>793,407</u>	<u>76,024</u>
EXPENDITURES:			
Salaries and benefits	454,989	447,247	(7,742)
Vehicle fuel	178,240	160,000	(18,240)
Insurance	34,361	19,867	(14,494)
Repairs	25,795	54,000	28,205
Occupancy	17,996	11,000	(6,996)
Professional fees	5,168	26,250	21,082
Office expenditures	4,598	9,750	5,152
Operating expenditures	979	700	(279)
Miscellaneous	<u>704</u>	<u>13,712</u>	<u>13,008</u>
Total expenditures	<u>722,830</u>	<u>742,526</u>	<u>19,696</u>
Excess of revenues over expenditures	146,601	50,881	95,720
Other financing uses	<u>(80,000)</u>	<u>(23,800)</u>	<u>(56,200)</u>
Excess of revenues over expenditures and other financing uses	66,601	27,081	39,520
Fund balance beginning of period	<u>145,488</u>	<u>267,859</u>	<u>(122,371)</u>
Fund balance end of period	\$ <u>212,089</u>	\$ <u>294,940</u>	\$ <u>(82,851)</u>

* The amounts above represent one-half of the amounts budgeted for the fiscal year ended June 30, 2014.

10-15 REGIONAL TRANSIT AGENCY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2014

The Executive Director of the 10-15 Regional Transit Agency prepares an annual budget for the Agency's general operations. This budget is approved and monitored by the Board. Budgetary control is based on total expenditures.

There were no budget amendments during the six months ended June 30, 2014.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of the
10-15 Regional Transit Agency:

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the 10-15 Regional Transit Agency as of and for the six months ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated June 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 10-15 Regional Transit Agency's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 10-15 Regional Transit Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the 10-15 Regional Transit Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-14 and II-B-14 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-C-14 through II-H-14 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 10-15 Regional Transit Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Agency's operations for the six months ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

10-15 Regional Transit Agency's Response to Findings

The 10-15 Regional Transit Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The 10-15 Regional Transit Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the 10-15 Regional Transit Agency during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
June 24, 2015

10-15 REGIONAL TRANSIT AGENCY

SCHEDULE OF FINDINGS
SIX MONTHS ENDED JUNE 30, 2014

Part I: Summary of the Independent Auditor's Results

- (a) Unmodified opinions were issued on the financial statements.
- (b) Material weaknesses and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Finding Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-14 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Agency's financial statements.

One individual has custody of receipts and performs all record-keeping and reconciling functions for the office, including the signing of checks.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Board should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including board members.

Response and Corrective Action Planned – The Board of Directors will adopt a policy that requires two signatures on all checks.

Conclusion – Response accepted.

- II-B-14 Driver Deposits – Drivers do not always deliver checks and cash to the office in a timely manner. In some cases, the office is unable to determine which customers the checks and cash relate to, and this leads to difficulties in reconciling account receivable.

Recommendation – Drivers should be required to drop off fares collected to the office at least weekly. In addition, a listing should accompany these collections that details who paid and who did not.

Response and Corrective Action Planned – Once the Route Match system is fully integrated, drivers will use this to identify deposits. In the interval, drivers will provide a listing to the office. Also, the drivers will do this at least weekly.

Conclusion – Response accepted.

- II-C-14 Approval of Expenditures – Currently the Board approves the expenditures after they have been paid.

Recommendation – Expenditures should be approved by the Board prior to payment. This will increase the segregation of duties by giving the Board oversight responsibilities.

Response and Corrective Action Planned – We do not feel that our current procedures in this area need to be changed.

Conclusion – Response acknowledged.

10-15 REGIONAL TRANSIT AGENCY

SCHEDULE OF FINDINGS
SIX MONTHS ENDED JUNE 30, 2014

Part II: Finding Related to the Financial Statements: (Continued)

- II-D-14 Capitalization Policy – After it's separation from the City, the Agency has not officially adopted it's own capitalization policy related to capital assets.

Recommendation – The Board should officially adopt it's own policy.

Response and Corrective Action Planned – The Board will look into this.

Conclusion – Response accepted.

- II-E-14 Credit Card Policy – The Agency does not currently have a written policy that dictates the use of Agency credit cards.

Recommendation – The Board should adopt a written policy that includes who can use the cards, what can be purchased with the cards, where the cards are kept when not in use, and the documentation requirements related to card use.

Response and Corrective Action Planned – The Agency has credit card policies but they are not written.

Conclusion – The Board should consider adopting written policies.

- II-F-14 General Ledger Posting – Several electronic payroll tax payments were not posted to the general ledger until several months after the payments were actually made.

Recommendation – In order for the monthly reports to the Board to be as accurate as possible, these electronic payments should be posted in the month that they were actually paid.

Response and Corrective Action Planned – We will do so in the future.

Conclusion – Response accepted.

- II-G-14 Documentation – During our testing of expenses, two credit card receipts could not be located.

Recommendation – Expenditures should not be made without proper documentation attached to the payment.

Response and Corrective Action Planned – We will do so in the future.

Conclusion – Response accepted.

- II-H-14 Bank Deposits – Bank deposits are not made on a timely basis.

Recommendation – In order to properly safeguard the Agency's assets, deposits should be made at least weekly.

Response and Corrective Action Planned – We will do so in the future.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

10-15 REGIONAL TRANSIT AGENCY

SCHEDULE OF FINDINGS
SIX MONTHS ENDED JUNE 30, 2014

Part III: Other Findings Related to required Statutory Reporting:

- III-A-14 Questionable Expenditures – No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- III-B-14 Travel Expense – No expenditures for travel expenses of spouses of Agency officials or employees were noted.
- III-C-14 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa policy were noted.

The Agency has not adopted an investment policy.

Recommendation – The Board should adopt an investment policy that complies with the Code of Iowa.

Response and Corrective Action Planned – The Board will look into this.

Conclusion – Response accepted.

- III-D-14 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

A summary of minutes was not published. Chapter 28E of the Code of Iowa requires 10-15 Transit to publish a summary of the proceedings of each regular or special meeting of the Board. This information is to be published in one newspaper of general circulation within the geographic area served by the Agency within 20 days following adjournment of the meeting. In addition, a notice of upcoming board meetings was not published.

Recommendation – The Agency should publish a summary of minutes and notice of upcoming board meetings in accordance with Chapter 28E of the Code of Iowa.

Response and Corrective Action Planned – We will do so from now on.

Conclusion – Response accepted.